Top Glove (TOPG MK)

Setbacks From Macro Challenges; Modest Growth In FY26

Highlights

- 2QFY26 results will see a modest sales volume growth, but profitability likely faces pressure from the weakening MYR/USD rate and higher input costs.
- 2026-27 earnings recovery remains intact despite various challenges, lifted by better sales volume and various production optimisation efforts.
- Risk-reward still appears unattractive at this juncture. Maintain HOLD and target price of RM0.57.

Analysis

- **2QFY26 results preview: Anticipating sequential growth albeit with slower momentum.** While Top Glove (TOPG) charted a commendable sales volume growth in 1QFY25 (+17% yoy; +4% qoq), we anticipate a further improvement of 5-6% yoy in 2QFY26. Our forecasts assume that TOPG's quarterly sales volume will grow to around 12.2b pieces (1QFY26: 11.6b pieces), mainly driven by higher purchase from US customers as higher tariffs against China manufacturers are implemented. We also forecast that 2QFY26 utilisation rate will improve to 75-76% (1QFY26:71.6%) based on the current 65b pieces annual capacity.
- **Potential input cost pressures if Middle East tension persists.** Following Israel and US' strikes on Iran last week, gas and chemical prices have spiked after the disruption of shipping and energy facilities in the Middle East region. We assess that TOPG's production costs such as fuel costs (natural gas) and raw material costs (natural latex and acrylonitrile) will likely see upward pressures (8-12% qoq) if WTI crude stays above the current US$82-85 range. As such, we estimate that TOPG's profitability per glove and EBITDA margin may see a 5-8% qoq drop in 3Q-4QFY26 if the geopolitical tension persists.
- **2026-27 to see modest earnings recovery despite challenges.** After more than three years of industry consolidation since pandemic highs, TOPG underwent an intensive Top Glove Turnaround Plan (T6) which includes non-core asset disposals, cost rationalisation and operational enhancement activities. Despite margin pressure from various macroeconomic headwinds, we opine that TOPG will be able to chart an earnings recovery from FY25's low base (19-25% yoy) and stay operationally profitable throughout FY27-28.

Key Financials

Year to 31 Aug (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	2,516.0	3,489.4	4,003.0	4,211.5	4,540.7
EBITDA	107.2	394.9	617.2	697.0	770.2
Operating profit	(180.3)	89.0	302.3	372.5	440.5
Net profit (rep./act.)	(61.8)	109.1	197.4	246.6	293.5
Net profit (adj.)	(61.8)	109.1	197.4	246.6	293.5
EPS	(0.8)	1.4	2.4	3.0	3.6
PE (x)	(87.6)	49.6	27.4	22.0	18.4
P/B (x)	1.2	1.1	1.1	1.1	1.1
EV/EBITDA (x)	15.6	2.5	1.4	1.2	0.5
Dividend yield (%)	0.0	0.7	1.8	2.2	2.7
Net margin (%)	(2.5)	3.1	4.9	5.8	6.5
Net debt/(cash) to equity(%)	1.0	11.1	8.8	8.2	(1.5)
Interest cover (x)	n.a	n.a	21.7	24.5	27.1
ROE (%)	(1.2)	2.1	3.8	4.7	5.5
Consensus net profit	n.a	n.a	165.1	203.5	250.7
UOBKH/Consensus (x)	n.a	n.a	1.2	1.2	1.2

Source: Top Glove, Bloomberg, UOB Kay Hian

HOLD (Maintained)

Share Price	RM0.56
Target Price	RM0.57
Upside	1.79%

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Stock Data

GICS sector	Health Care
Bloomberg ticker:	TOPG MK
Shares issued (m):	8,018.0
Market cap (RM$m):	4,490.1
Market cap (US$m):	1,143.7
3-mth avg daily t'over (US$m):	2.6

Price Performance (%)

52-week high/low				RM0.9/RM0.6
1mth	3mth	6mth	1yr	YTD
(8.2)	(2.6)	(6.7)	(38.1)	(13.2)

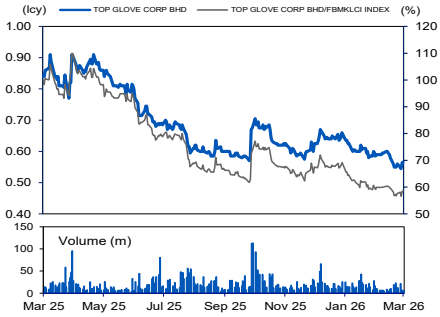
Major Shareholders %

Tan Sri Lim Wee Chai	28.95
Central Depository Pte Ltd	15.25
Firstway United Corp	6.92

Balance Sheet Metrics %

FY26 NAV/Share (RM)	0.6
FY26 Net Debt/Share (RM)	0.0

Price Chart



Source: Bloomberg

Company Description

Latex glove manufacturer

- **Unfolding forex headwinds on steep MYR/USD movement.** While TOPG's sales are mainly denominated in US dollars, the recent strengthening of the ringgit against the US dollar (3.2% ytd) is expected to further weaken the group's earnings in the next two quarters (3QFY26-4QFY26). We understand that TOPG has a natural hedge as 45-50% of its production costs comprising raw material and chemicals are also in US dollars. We also expect TOPG to pass through some costs to customers via higher ASPs. Nevertheless, such drastic forex movement will undoubtedly impact the group's net profit, which we assess to be in the range of 5-8% in the next two quarters.
- **Management guides a potential 20-25% volume sales improvement in FY26…** Management estimates that FY26 demand will see a strong improvement as US distributors' overstocked inventories are depleted. This may bring TOPG's FY26 volume sales to 48b-50b pieces (FY25: 40b pieces), and utilisation rate to 73-79% (FY25: 63%). FY26's earnings growth will be supported by: a) a higher US sales mix (4QFY25: 42%) with stabilising ASP, b) falling raw material costs and natural gas tariffs, and c) margin expansion on better efficiency and utilisation rate.
- **…but profitability margin takes time to recover.** Despite strengthening volume sales and lower input costs, management guided that profitability margin may recover to FY19's level only by 2027-28. This is mainly due to lower ASPs arising from aggressive competition in non-US markets. 1QFY26's EBIT and net margin are 4.6ppt and 3.7ppt respectively, falling short against FY19's EBIT and net margin of 9.6ppt and 7.6ppt respectively.
- **Sufficient capacity to cater for gradual orderbook increase.** TOPG's current active capacity is about 65b pieces annually after restarting production lines at 3-4 factories that were previously scaled back. While the group targets to lift overall active production capacity to about 70b pieces by end-FY26, we think that the capacity expansion will see some slowdown in Apr-Jun 26 as current capacity is still sufficient to cater to existing demand. Hence, we expect lower refurbishment costs in 2QFY26 (-10% to -15% qoq) in view of the installation of fewer new production lines across the group's factory facilities.
- **Intensifying competition within European markets.** Outside of the US, we expect more aggressive ASP competition from China manufacturers in other regions. With the loss of US sales, we reckon intense competition from China manufacturers will cap ASP upside in non-US markets for Malaysian producers. That said, we estimate China glove manufacturers' breakeven ASP at US$15/'000 pieces, and they are unlikely to excessively dump their inventories at lower ASPs. The potential decline in European sales will likely be mitigated by increasing US orders.
- **Positive trend from cash flow and balance sheet items.** We understand that TOPG's current breakeven cost for generic nitrile gloves is US$14-15/'000 pieces, comparable with those of China competitors. Despite earnings facing an upward slope to recover close to pre-pandemic levels, we opine that TOPG's improving efficiency and cost base promise a gradual recovery of operating matrices. With the recent redemption of perpetual sukuk and borrowings reduction, TOPG's gearing ratio is also reduced to 0.06x (FY19: 0.85x). We expect stronger operating cash flow and balance sheet in the coming quarters.

Valuation/Recommendation

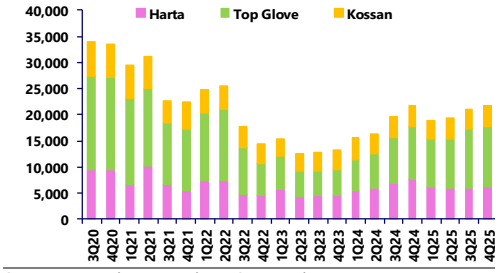
- **Maintain HOLD with an unchanged target price of RM0.57** which implies 22x 2026F PE (-0.5SD below normalised five-year mean).
- **With increasing macroeconomic headwinds we remain cautious on fluid industry dynamics** as intensifying competition from China glove manufacturers poses medium- to long-term challenges in terms of ASPs and margins.

Assumptions

	FY26F	FY27F	FY28F
Revenue (RMm)	4003	4500	4881
ASP Growth yoy (%)	15%	12%	8%
EBITDA Margin (%)	15.4%	17.9%	17.8%
PAT (RMm)	197	324	365
Growth yoy (%)	359%	64%	12%
Margin (%)	4.9%	7.2%	7.5%

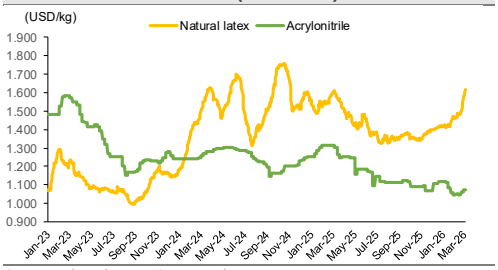
Source: UOB Kay Hian

Malaysian Glove Players' Quarterly Sales Volume (m' pcs)



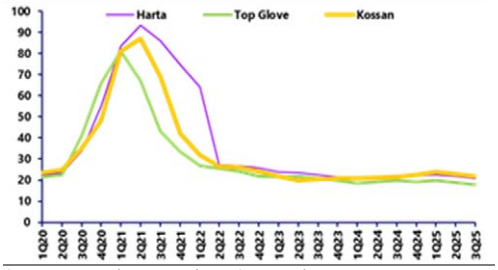
Source: Respective companies, UOB Kay Hian

Raw Material Prices (US$/KG)



Source: Bloomberg, UOB Kay Hian

Malaysian Glove Players' Quarterly ASP Chart (US$' 1□000 pieces)



Source: Respective companies, UOB Kay Hian

Environmental□Social□Governance (ESG)

Environmental

- Water management. To reduce municipal water consumption intensity by 34% to 0.151m3/1,000 pcs gloves by FY25 with the use of in-house water cycling facilities.
- Energy management. To reduce electricity and natural gas consumption intensity by 26% and 25% respectively by 2025.

Social

- Human rights and labour management. Verified by independent third-party consultant that the company is free of all 11 International Labour Organisation (ILO) forced labour indicators.

Governance

- Gender diversity. 42% of its board of directors are female.

Source: UOB Kay Hian

Profit & Loss

Year to 31 Aug (RMm)	2025	2026F	2027F	2028F
Net turnover	3,489	4,003	4,212	4,541
EBITDA	395	617	697	770
Deprec. & amort.	306	315	324	330
EBIT	89	302	372	441
Total other non-operating income	61	0	0	0
Associate contributions	(2)	(2)	(2)	(2)
Net interest income/(expense)	6	(28)	(28)	(28)
Pre-tax profit	154	272	342	410
Tax	(27)	(75)	(96)	(117)
Minorities	(19)	0	0	0
Net profit	109	197	247	294
Net profit (adj.)	109	197	247	294

Balance Sheet

Year to 31 Aug (RMm)	2025	2026F	2027F	2028F
Fixed assets	3,296	3,850	3,756	3,427
Other LT assets	1,523	1,523	1,523	1,523
Cash/ST investment	298	401	421	404
Other current assets	1,156	1,061	1,091	1,145
Total assets	6,274	6,835	6,791	6,498
ST debt	29	29	29	29
Other current liabilities	499	961	775	802
LT debt	798	798	798	298
Other LT liabilities	164	164	164	164
Shareholders' equity	4,756	4,854	4,978	5,124
Minority interest	27	28	30	32
Total liabilities & equity	6,274	6,835	6,774	6,450

Cash Flow

Year to 31 Aug (RMm)	2025	2026F	2027F	2028F
Operating	328	630	585	627
Pre-tax profit	154	272	342	410
Tax	(49)	(75)	(96)	(117)
Deprec. & amort.	306	315	324	330
Associates	2	2	2	2
Working capital changes	(79)	88	(16)	(26)
Non-cash items	0	0	0	0
Other operating cashflows	(6)	28	28	28
Investing	421	(200)	(231)	0
Capex (growth)	(144)	(200)	(231)	0
Proceeds from sale of assets	29	0	0	0
Others	565	0	0	0
Financing	(803)	(327)	(352)	(675)
Dividend payments	0	(99)	(123)	(147)
Proceeds from borrowings	798	0	0	0
Loan repayment	(1,180)	(200)	(200)	(500)
Others/interest paid	(422)	(28)	(28)	(28)
Net cash inflow (outflow)	(54)	103	2	(48)
Beginning cash & cash equivalent	353	298	402	404
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	298	402	404	356

Key Metrics

Year to 31 Aug (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	11.3	15.4	16.6	17.0
Pre-tax margin	4.4	6.8	8.1	9.0
Net margin	3.1	4.9	5.8	6.5
ROA	1.5	2.6	3.3	4.0
ROE	2.1	3.8	4.7	5.5
Growth				
Turnover	38.7	14.7	5.2	7.8
EBITDA	268.2	56.3	12.9	10.5
Pre-tax profit	n.a.	76.3	25.8	19.9
Net profit	n.a.	81.0	24.9	19.0
Net profit (adj.)	n.a.	81.0	24.9	19.0
EPS	n.a.	81.0	24.9	19.0
Leverage				
Debt to total capital	17.3	17.0	16.5	6.4
Debt to equity	17.4	17.0	16.6	6.4
Net debt/(cash) to equity	11.1	8.8	8.2	(1.5)
Interest cover	0.0	21.7	24.5	27.1

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